

MAY 28, 2019

	27-May	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	39,683	0.6	1.6	10.5
NIFTY Index	11,925	0.7	1.4	10.3
NSEBANK Index	31,648	1.4	5.4	18.1
NIFTY 500 Index	9,805	0.9	1.2	9.6
CNXMcap Index	17,996	1.7	1.5	8.1
BSESMCAP Index	14,959	1.8	1.0	10.2
<b>World Indices</b>				
Dow Jones	25,586	0.4	(3.6)	(1.5)
Nasdaq	7,637	0.1	(6.1)	1.1
FTSE	7,278	0.6	(2.0)	2.4
NIKKEI	21,183	0.3	(4.4)	(0.5)
Hangseng	27,288	(0.2)	(7.4)	(4.2)
Shanghai	2,892	1.4	(5.5)	(0.8)

<b>Value traded (Rs cr)</b>	27-May	% Chg Day
Cash BSE	2,979	(15.6)
Cash NSE	38,016	(8.4)
Derivatives	880,648	(10.2)

<b>Net inflows (Rs cr)</b>	24-May	MTD	YTD
FII	392	(744)	67,477
Mutual Fund	218	6,547	3,886

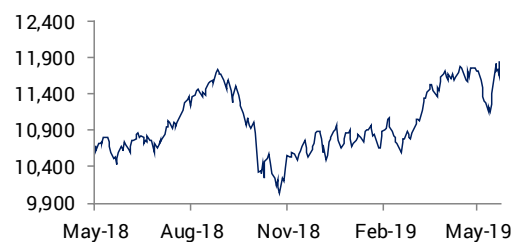
<b>Nifty Gainers &amp; Losers</b>	Price	Chg	Vol
27-May	(Rs)	(%)	(mn)
<b>Gainers</b>			
Tata Steel	513	5.9	18.2
Yes Bank	147	4.0	67.3
Indian Oil Corp	162	3.4	12.5
<b>Losers</b>			
Zee Entertainment	361	(4.2)	13.4
Indusind Bank	1,613	(2.2)	2.4
Reliance Ind	1,311	(2.0)	7.4

<b>Advances / Declines (BSE)</b>					
27-May	A	B	T	Total	% total
Advances	343	757	70	1,170	100
Declines	115	234	44	393	34
Unchanged	3	18	20	41	4

	27-May	% Chg		
		1 Day	1 Mth	3 Mths
<b>Commodity</b>				
Crude (US\$/BBL)	70.1	(0.1)	(2.9)	6.1
Gold (US\$/OZ)	1,289.0	0.3	(0.2)	(2.3)
Silver (US\$/OZ)	14.6	0.2	(3.6)	(6.8)

<b>Debt / Forex Market</b>	27-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.2	7.2	7.4	7.5
Re/US\$	69.5	69.5	70.0	71.2

## Nifty



Source: Bloomberg

## News Highlights

- ▶ The government plans to revamp India's macro-economic statistical system, including barometers used to calculate growth and industrial output as well as create a new database of businesses. (HT)
- ▶ The Securities and Exchange Board of India (Sebi) tightened rules for listed bonds, imposing a 2 per cent additional interest on companies that fail to pay their debt investors either due interest or principal on the scheduled date. (ET)
- ▶ **Adani Ports & SEZ's** board to consider dividend and buyback on June 4. The total payout amount is expected to increase regular dividend payout. (BQ)
- ▶ Music Broadcast board approved the acquisition of entire stake of **Reliance Broadcast Network** (Big FM) for Rs 10.5 bn. Initially the company will acquire 24 percent stake in the target company via preferential allotment for Rs 2.02 bn. As per this transaction, **Reliance Capital** debt will be reduced by Rs 12 bn. (BQ)
- ▶ **NTPC** is doing due diligence to acquire a 700 MW coal-fired project being developed by Ind-Barath Energy according to an official familiar with the development. The company was approached by Power Finance Corp. to explore a possible acquisition. (BQ)
- ▶ Fraud involving misappropriation of funds by a company official in collusion with six contractors has been noticed by the management of **Hindustan Aeronautics** and amount of Rs 188 mn has been provisionally assessed as fraudulent payments made to contractors from December 2013 to September 2018. The company says the matter is under investigation by the CBI. (BQ)
- ▶ **InterGlobe Aviation's** board approved the appointment of Wolfgang Prock-Schauer as President & Chief Operating Officer with effect from May 27. (BQ)
- ▶ **Vascon Engineers** received Letter of Intent amounting to Rs 1.7bn from Tycoons Avanti Projects LLP for construction of a building. (BQ)
- ▶ **Info Edge (India)** acquired Highorbit Careers Pvt. Ltd. (iimjobs.com) for cash consideration of Rs 808.2 mn. The company expects the deal to complete by June 30, 2019. (BQ)
- ▶ **JB Chemicals** have put their business up for sale, mandating investment bank Aventus to look for a buyer for their 57% stake in the company, said four people with direct knowledge of the development. (ET)
- ▶ **Zee Entertainment Enterprises** is in talks with identified buyers and is confident of signing a binding agreement by July. (ET)
- ▶ **YES Bank** is likely to exit the asset management business as it believes that scaling up operations amid intensifying competition could be difficult, said people familiar with the plans. (ET)
- ▶ **Maruti Suzuki India (MSI)** Monday shut production for a day at its plants near here to manage rising inventory levels. (ET)

## What's Inside

- ▶ **Result Update:** Finolex Industries, Amber Enterprises India and PNC Infratech

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI = Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

## Result Update

# FINOLEX INDUSTRIES LTD (FIL)

### Stock Details

Market cap (Rs mn)	:	60763
52-wk Hi/Lo (Rs)	:	713 / 437
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	31,779
Shares o/s (mn)	:	124

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	30,913	33,931	37,442
Growth (%)	12.9	9.8	10.3
EBITDA	6,043	5,567	6,115
EBITDA margin (%)	19.5	16.4	16.3
PAT	3,498	3,341	3,658
EPS	28.2	26.9	29.5
EPS Growth (%)	17.2	-4.5	9.5
BV (Rs/share)	204	219	237
Dividend/share (Rs)	10.0	10.0	10.0
ROE (%)	13.2	12.7	12.9
ROCE (%)	19.5	17.7	18.1
P/E (x)	17.5	18.3	16.8
EV/EBITDA (x)	10.2	10.9	9.6
P/BV (x)	2.4	2.3	2.1

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	52.5	52.5	52.5
FII	2.9	2.9	3.4
DII	10.0	10.0	9.5
Others	34.4	34.4	34.3

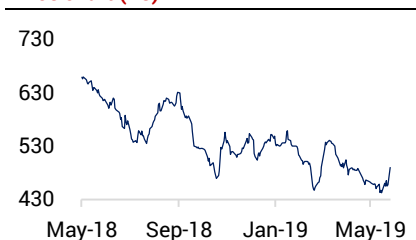
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Finolex Industries	5.0	4.1	(10.1)
Nifty	1.4	10.3	11.6

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE RS.494

TARGET RS.560

ADD

Finolex Industries' (FIL) Q4FY19 standalone revenue was ahead of estimates while EBITDA margin and PAT were below our estimates. PVC pipes volume witnessed strong growth, while margin took a hit on lower PVC/EDC spread and volatility in PVC prices.

### Key Highlights

- The company reported 19.2% yoy growth in net sales at Rs 9.6 bn driven by strong volume growth of 12.6% in pipes segment and 6.1% in resin business on yoy basis. Volume in both pipes and fittings grew by 12.4% and 14.4% yoy, respectively driven by pickup in demand of PVC pipes towards the end of the quarter.
- EBITDA margin at 15.2% declined by 800 bps yoy and was below our estimates of 16.3% due to decline in PVC/EDC spread in resin business. Volatility in the raw material prices in pipes business also resulted in inventory losses.
- FIL has maintained positive demand outlook in the longer run in PVC pipes business and aims at 12-15% growth in volume in FY20E based on improvement in demand and low base effect. However, EBITDA margin is expected to decline due to lower spread in the resin business.

### Outlook and Valuations

We have cut our EPS estimates for FY20E by 15% based on lower spread in PVC resin segment negatively impacting margins for FY20E and introduce estimates for FY21E. We have assumed 12% volume CAGR in FY19-21E in pipes business. The stock is presently trading at PE of 18.3x and 16.8x based on FY20E and FY21E EPS of Rs 26.9 and Rs 29.5 per share, respectively. We recommend ADD (vs. Buy) on the stock with revised target price of Rs 560 (Vs Rs 635), valuing the stock at 19x FY21E EPS, as we roll forward our valuation.

### Quarterly performance table

Particulars Rs Mn	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
<b>Net Sales</b>	<b>9,642</b>	<b>8,091</b>	<b>19.2%</b>	<b>7,566</b>	<b>27.4%</b>
Expenditure	8,178	6,212	31.6%	6,316	29.5%
RM Cost	6,419	4,771	34.5%	4,875	31.7%
Employee Cost	382	298	28.5%	328	16.6%
Other Expenditure	1,376	1,143	20.3%	1,113	23.6%
<b>EBITDA</b>	<b>1,465</b>	<b>1,879</b>	<b>-22.0%</b>	<b>1,250</b>	<b>17.2%</b>
EBITDAM (%)	15.2%	23.2%		16.5%	
Other Income	122	28	344.3%	173	-29.1%
PBIDT	1,587	1,907	-16.7%	1,422	11.6%
Depreciation	177	156	13.3%	196	-10.0%
Interest	24	34	-29.8%	17	37.9%
<b>PBT</b>	<b>1,387</b>	<b>1,717</b>	<b>-19.2%</b>	<b>1,209</b>	<b>14.7%</b>
Tax	473	508	-6.8%	422	12.1%
<b>PAT</b>	<b>914</b>	<b>1,209</b>	<b>-24.4%</b>	<b>787</b>	<b>16.1%</b>
PATM (%)	9.5%	14.9%		10.4%	
Equity Capital	1,241	1,241	0.0%	1,241	0.0%
<b>EPS</b>	<b>7.4</b>	<b>9.7</b>	<b>-24.4%</b>	<b>6.3</b>	<b>16.1%</b>

Source: Company

Pankaj Kumar

pankajr.kumar@kotak.com

+91 22 6218 6434

### Revenue ahead of estimates on strong volume in PVC pipes

Net Revenue for the quarter grew by 19.2% yoy to Rs 9.6 bn (ahead of our estimates of Rs 8.8 bn) driven by 1) volume growth of 12.6% yoy and 6.1% in PVC pipes segment and resin segment, respectively and 2) realization growth of 3% yoy and 2.2% yoy in PVC pipes segment and PVC resin segment, respectively. The volume growth in the quarter was driven by pickup in demand towards the end of the quarter. Its large markets Maharashtra and Karnataka witnessed strong growth after the resolution of payment issues to the sugarcane farmers. As per management, the demand across the segments have remained strong in Q1FY20 till date. The company has been reducing discounts on qoq for the past many quarters which resulted in better net realization. Fittings volume in the quarter grew by 14.4% yoy to 5728 tonnes on growth in plumbing segment. The company reported 2725 tonne of CPVC volume, with revenue of Rs 750 mn in Q4FY19.

#### Volume Details

In tonnes	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
<b>PVC Pipes &amp; Fittings</b>	<b>80,771</b>	<b>71,758</b>	<b>12.6</b>	<b>59,179</b>	<b>36.5</b>
Pipes	75,043	66,753	12.4	54,309	38.2
Fittings	5,728	5,005	14.4	4,869	17.6
<b>PVC Resins</b>	<b>76,549</b>	<b>72,123</b>	<b>6.1</b>	<b>66,838</b>	<b>14.5</b>
Resins Internal	53,909	54,997	-2.0	44,627	20.8
Resins External	22,640	17,126	32.2	22,211	1.9

Source: Company

### EBITDA margins declined on lower spread

Q4FY19 EBITDA declined by 22% yoy to Rs 1.5 bn (Vs estimates of Rs 14.3 mn) with 800 bps yoy decline in EBITDA margins at 15.2%. EBITDA margin in the quarter was below our estimates of 16.3% due to lower margin in resin business and volatility in price of PVC pipes business. PVC Resin EBIT margin was at 14.5% as compared to 24.1% yoy (960 bps yoy decrease). PVC pipes and fittings EBIT margin was at 7.7% as compared to 9.2% yoy (150 bps yoy decrease). As per company, high EDC price and decline in PVC price has resulted in lower PVC/EDC delta which has reduced the margin in PVC segment on yoy basis. The PVC price volatility and delayed demand pick up has also affected the pipes and fittings margin. PVC-EDC spread in the quarter was at ~ USD 523 per tonne (Vs USD 535 per tonne in Q3FY19 and USD 785 per tonne in Q4FY18) and continued to decline to current level of USD 505 per tonne. PAT for the quarter declined by 24.4% yoy to Rs 914 mn (Vs estimates of Rs 1.1 bn) due to lower EBITDA.

#### Segmental Breakup

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
<b>Gross Sales</b>					
PVC Pipes & Fittings	7911	6827	15.9	5906	33.9
PVC Resins	5594	5158	8.4	4840	15.6
<b>EBIT</b>					
PVC Pipes & Fittings	612	629	-2.7	438	39.7
PVC Resins	810	1242	-34.8	809	0.1
<b>EBIT Margins (%)</b>					
PVC Pipes & Fittings	7.7	9.2		7.4	
PVC Resins	14.5	24.1		16.7	

Source: Company

### Given positive outlook for long term

In FY19, the company registered 4.3% growth in pipes and fitting volume and expect volume growth to revive in FY20E. The management has given positive demand outlook for PVC pipes business and aims to grow its volume at double digit rate, 12-15% in FY20. Further, the company has increased its pipes and fittings capacity to 370,000 tonne per annum (tpa) by end of FY19 (vs 330,000 tpa in FY18 end) and which would support its revenue growth. The company intends to add 10-15% capacity through internal accruals in the next 2 years.

### Other highlights

- The price of PVC pipes have been volatile in recent time, however the company has passed on the impact of the same.
- The company has incurred Rs 1.5 bn capex in FY19 and targets for Rs 1 bn capex in FY20E in order to ramp up capacity and increase product ranges.
- The company is operating at 65-70% capacity utilization in the pipes business.
- FIL's associate company, Finolex Plasson reported 4 bn revenue with 17% yoy growth and Rs 190 mn PAT with 10.5% yoy growth.

### Outlook and valuation

We believe that, FIL would be a major beneficiary from government's focus on irrigation and improvement in rural consumption in the long term. We believe that the demand of PVC pipes from rural segment is expected to improve further in coming quarters. We expect the margins in PVC pipes and fittings segment to remain at current level. But resin business is expected to face challenge in terms of margins as average PVC-EDC spread has come down to USD 505 per tonne as against highs of over USD 700 per tonne in 2018.

We have cut our EPS estimates for FY20E by 15% based on lower spread in PVC resin segment negatively impacting margins for FY20E and introduce estimates for FY21E. We have assumed 12% volume CAGR in FY19-21E. The stock is presently trading at PE of 18.3x and 16.8x based on FY20E and FY21E EPS of Rs 26.9 and Rs 29.5 per share, respectively. We recommend ADD (vs. buy) on the stock with revised target price of Rs 560 (Vs Rs 635), valuing the stock at 19x FY21E EPS, as we roll forward our valuation.

### Revision in estimates

Particulars (Rs Mn)	Previous		Actual FY19A	Revised FY20E	% Change		New FY21E
	FY19E	FY20E			FY19E	FY20E	
Revenue	30,051	34,541	30,913	33,931	2.9	-1.8	37,442
EBITDA	5,865	6,301	6,043	5,567	3.0	-11.7	6,115
EBITDA margin (%)	19.5	18.2	19.5	16.4	0 bps	-180 bps	16.3
PAT	3,727	3,940	3,498	3,341	-6.1	-15.3	3,658
EPS (Rs)	30	31.8	28.2	26.9	-6.0	-15.3	29.5

Source: Kotak Securities - Private Client Research

### **Company Background**

Finolex Industries Ltd (formerly Finolex Pipes Ltd), was incorporated in 1981, and is a leading brand in Indian PVC pipes and fittings market. The company manufactures and sells PVC pipes, fittings and PVC resin. 83% of its revenue is contributed by PVC pipes and fittings and balance 17% is contributed by PVC resins in FY19. The company began its journey as a PVC pipes player and further diversified in manufacturing of PVC resin in 1994 as part of its backward integration strategy. Further, it commissioned 43 MW thermal power plant at Ratnagiri in 2009-10 to reduce its dependency on the grid for its power requirements. Presently, FIL is the largest player in terms of market share in agriculture pipes segment and is a leading player in PVC resin business (after RIL and Chemplast) in India. FIL has three pipes manufacturing plants located in Pune (Maharashtra), Ratnagiri (Maharashtra) and Masar (near Vadodara, Gujarat) with installed capacity of 370000 tonne per annum. FIL has strong distribution network with over 700 dealers and 18,000+ retail touch points across country.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>27,378</b>	<b>30,913</b>	<b>33,931</b>	<b>37,442</b>
% change yoy	5.2	12.9	9.8	10.3
Direct Cost	17,644	19,098	21,811	24,068
Employee Cost	1,161	1,344	1,506	1,656
Other Expenses	3,733	4,428	5,048	5,603
Total Expenses	22,539	24,870	28,364	31,327
<b>EBITDA</b>	<b>4,839</b>	<b>6,043</b>	<b>5,567</b>	<b>6,115</b>
% change yoy	(14.0)	24.9	-7.9	9.9
Depreciation	606	701	775	838
<b>EBIT</b>	<b>4,233</b>	<b>5,342</b>	<b>4,792</b>	<b>5,277</b>
Other Income	253	416	416	416
Interest	98	123	91	91
<b>Profit Before Tax</b>	<b>4,388</b>	<b>5,356</b>	<b>5,116</b>	<b>5,602</b>
% change yoy	(15.1)	22.1	-4.5	9.5
Tax	1,403	1,858	1,775	1,943
as % of EBT	32.0	34.7	34.7	34.7
<b>PAT</b>	<b>2,985</b>	<b>3,498</b>	<b>3,341</b>	<b>3,658</b>
% change yoy	(15.2)	17.2	-4.5	9.5
Shares outstanding (mn)	124	124	124	124
<b>EPS (Rs)</b>	<b>24.1</b>	<b>28.2</b>	<b>26.9</b>	<b>29.5</b>
DPS (Rs)	10.0	10.0	10.0	10.0
CEPS (Rs)	28.9	33.8	33.2	36.2
BVPS (Rs)	222.8	203.7	219.0	236.8

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	4,388	5,356	5,116	5,602
Depreciation & Others	606	701	775	838
Change in WC	(91)	237	(272)	(316)
Other operating activities	(1,305)	(1,735)	(1,684)	(1,852)
<b>Operating Cash Flow</b>	<b>3,598</b>	<b>4,559</b>	<b>3,936</b>	<b>4,271</b>
Capex	(1,583)	(1,366)	(1,000)	(1,000)
Free Cash Flow	2,015	3,193	2,936	3,271
Change in Investments	221	(1,342)	-	-
<b>Investment cash flow</b>	<b>(1,362)</b>	<b>(2,709)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Equity Raised	-	-	-	-
Debt Raised/Repaid	65	(101)	-	-
Dividend	(1,452)	(1,452)	(1,452)	(1,452)
Other financing activity	(779)	(240)	(91)	(91)
<b>CF from Financing</b>	<b>(2,166)</b>	<b>(1,793)</b>	<b>(1,543)</b>	<b>(1,543)</b>
Change in Cash	71	57	1,393	1,728
Opening Cash	163	234	291	1,684
<b>Closing Cash</b>	<b>234</b>	<b>291</b>	<b>1,684</b>	<b>3,412</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	1,241	1,241	1,241	1,241
Reserves	26,405	24,043	25,933	28,139
Net worth	27,646	25,284	27,174	29,380
Borrowings	1,007	906	906	906
Net Deferred tax & others	537	853	853	853
<b>Total Liabilities</b>	<b>29,190</b>	<b>27,043</b>	<b>28,932</b>	<b>31,139</b>
Gross Block	10,456	11,823	12,823	13,823
Accumulated Depreciation	1,614	2,315	3,090	3,928
Net block	8,842	9,509	9,734	9,896
Capital work in progress	903	902	902	902
Investments	15,772	13,174	13,174	13,174
Inventories	6,116	6,205	6,810	7,515
Sundry debtors	431	743	816	900
Cash and equivalents	234	291	1,684	3,412
Loans and advances & Others	2	3	3	3
Total current assets	7,425	7,850	9,921	12,438
Sundry creditors and others	2,505	2,838	3,115	3,437
Provisions	149	230	230	230
Total CL & provisions	3,753	4,392	4,799	5,272
Net current assets	3,672	3,458	5,122	7,167
<b>Total Assets</b>	<b>29,190</b>	<b>27,043</b>	<b>28,932</b>	<b>31,139</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	17.7	19.5	16.4	16.3
EBIT margin (%)	15.5	17.3	14.1	14.1
Net profit margin (%)	10.9	11.3	9.8	9.8
EPS growth (%)	(15.2)	17.2	(4.5)	9.5
Receivables (days)	6	9	9	9
Inventory (days)	82	73	73	73
Payable (days)	48	49	49	49
Cash Conversion Cycle (days)	46	37	37	37
Asset Turnover (x)	1.0	1.1	1.3	1.3
Net Debt/ Equity (x)	0.0	0.0	(0.0)	(0.1)
RoCE (%)	16.1	19.5	17.7	18.1
RoE (%)	11.8	13.2	12.7	12.9
P/E (x)	20.5	17.5	18.3	16.8
P/BV (x)	2.2	2.4	2.3	2.1
EV/EBITDA (x)	12.8	10.2	10.5	9.6
EV/Sales (x)	2.3	2.0	1.8	1.6

Source: Company, Kotak Securities – Private Client Research

## Result Update

# AMBER ENTERPRISES LTD (AEL)

### Stock Details

Market cap (Rs mn)	:	25973
52-wk Hi/Lo (Rs)	:	1128 / 621
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	39,266
Shares o/s (mn)	:	31

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	27,520	34,195	39,370
Growth (%)	29.3	24.3	15.1
EBITDA	2,129	3,112	3,645
EBITDA margin (%)	7.7	9.1	9.3
PAT	948	1,319	1,533
EPS	30.2	42.0	48.8
EPS Growth (%)	52.1	43.9	16.1
BV (Rs/share)	314.1	357.5	407.9
Dividend/share (Rs)	0.0	0.0	0.0
ROE (%)	10.1	12.5	13.2
ROCE (%)	13.5	16.2	16.6
P/E (x)	27.3	19.6	16.9
EV/EBITDA (x)	14.6	10.7	9.0
P/BV (x)	2.6	2.3	2.0

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	44.0	44.0	44.0
FII	10.7	10.7	10.7
DII	8.1	8.1	7.7
Others	37.2	37.2	37.6

Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
Amber Enterprises	2.2	21.7	(9.7)
Nifty	1.4	10.3	11.6

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

PRICE Rs.825

TARGET Rs.976

BUY

AEL reported strong set of numbers that surpassed our expectations on Revenue, EBITDA and PAT front. The company was able to meet its sales volume guidance even though the room AC industry growth itself was largely sluggish.

### Key Highlights

- AEL reported revenue of Rs 9.7 bn, up 40.4% on a y-o-y basis.
- Operating EBITDA margins for Q4FY19 stood at 10.5%, an expansion of 70 bps on a y-o-y basis.
- The management shared positive growth outlook for FY20E as Q1 FY20E has started on a strong note.

### Valuation and Outlook

In terms of valuation, the stock is trading at 19.6x and 16.9x FY20E and FY21E earnings respectively. We see the company as a very good play on India's fast-growing room AC's (RAC) industry. AEL enjoys one of the highest two year earnings CAGR among peer group. With sustained demand trends and modest capex, we see asset turnover to rise in coming years leading to enhanced ROE/ROCE. We value the stock at 20x Consol EPS of FY20E (23x FY20E). Ascribe price target of Rs 976. (Rs 946 earlier).

### Q4FY19 Results - Standalone

(Rs mn)	Q4FY19	Q4FY18	YoY (%)
<b>Net Sales</b>	<b>9713.0</b>	<b>6920.0</b>	<b>40.4</b>
Raw Material Consumed	7969.9	5681.3	40.3
Stock Adjustment	127.9	77.9	64.2
Employee Expenses	110.9	127.2	-12.8
Other Expenses	479.8	354.7	35.3
TOTAL EXPENDITURE	8688.5	6241.1	39.2
<b>PBIDT</b>	<b>1024.5</b>	<b>678.9</b>	<b>50.9</b>
Depreciation	130.7	113.1	15.6
Other Income	48.5	8.0	506.3
<b>EBIT</b>	<b>942.3</b>	<b>573.8</b>	<b>64.2</b>
Interest	51.5	72.0	-28.5
<b>PBT</b>	<b>890.8</b>	<b>501.8</b>	<b>77.5</b>
Tax	195.8	192.6	1.7
Deferred Tax	79.0	-29.0	-372.4
Reported Profit After Tax	616.0	338.3	82.1
EBITDA (%)	10.5	9.8	
Material cost to sales (%)	83.4	83.2	
Employee cost to sales (%)	1.1	1.8	
Other expenditure to sales (%)	4.9	5.1	
Tax rate (%)	31.0	38.4	

Source: Company

Sanjeev Zarbade

sanjeev.zarbade@kotak.com

+91 22 6218 6424

### Reported Vs Estimated performance

(Rs mn)	Reported	Estimated
Revenue	9713	7918
EBITDA (%)	10.5	10.0
PAT	616	478

Source: Company and Kotak Securities – Private Client Research

## Result Highlights

### Q4FY19 & FY19- Standalone

AEL reported revenue of Rs 9.7 bn, up 40.4% on a y-o-y basis. Revenue from sale of ACs grew by 43% on a y-o-y basis while sale of components grew 30% on a y-o-y basis. Components now contribute 16.6% of revenues.

Revenue for FY19 stood at Rs 21.9 up by 14% as compared to FY18 (adjusted for GST/Excise)

EBITDA margins for Q4FY19 stood at 10.5%, an expansion of 70 bps on a y-o-y basis.

EBITDA margin for FY19 stood at 8.6% as against 8.9% in FY18 as there was delay in negotiating price increase with customers. Due to weak demand in the seasonally strongest quarter of April – June, the AC manufacturing industry was left with substantial excess inventory of ACs, which finally got normalized by the start of the fourth quarter. As a result, AEL's customers who are frontline AC brands were not in a position to allow higher prices to AEL. Hence, EBITDA margins were impacted in FY19.

### Operational Highlights

- AEL's growth in AC sales volumes were substantial in Q4FY19 at 43% on a y-o-y basis.
- For FY19, growth in AC volumes stood at 11% (1.9 mn units in FY18 to 2.1 mn units for FY19)

### Subsidiary/Associate company performance in FY19

#### Performance summary

	IL JIN	PICL	Ever	Sidwal *
AEL's stake	70%	100%	19%	80%
Revenue Rs mn	3350	1370	2720	1800
EBITDA margin	5.00%	5.40%	2.50%	19.4%

Source: Company management, \* acquired in FY20

### Higher working capital and Capex led to decline in cash and increase in borrowings

Receivables in terms of Days of sales rose to 104 days in FY19 as against 65 days in FY18, which the management attributed to 1) higher share of revenue booked in Q4FY19 at 44% as against 36% in Q4FY18 and 2) addition of new clients in Q4FY19 which have relatively higher credit cycle.

As a consequence of higher working capital and capex of Rs 1.3 bn, AEL reported decline in (Consol) cash in FY19, which now stands at Rs 447 mn as compared to Rs 1.3 bn at the end of FY18.

Consolidated gross borrowings also rose to Rs 2.5 bn in FY19 as compared to Rs 1.0 bn at the end of FY18.



## Management guidance

The management had guided for 2.1 mn units in room ACs in FY19, which it was able to fulfil.

For the current fiscal, the management has guided for room AC sales volume growth of 4-5% in excess of the industry growth rate.

With new customer additions, increase in wallet share of existing customer and product expansion in AC & Non AC Components the management expects margins to improve progressively going into FY2020E.

## Conference call highlights

The company is paying Rs 2.0 bn for acquisition of 80% stake in Sidwal Refrigeration Industries Pvt Ltd, out of which Rs 1.46 bn would be paid in cash and the balance amount to be funded through loan taken on Sidwal's balance sheet. (Source: Company)

The company is anticipating strong revenue growth of 25-30% in Q1FY20E as month of April has already witnessed ~50% y-o-y rise in volumes.

Ever electronics has added four new customers recently and the management is expecting over Rs 1.0 bn contribution from these customers.

The company is envisaging Rs 1.2 bn towards Capex in FY20E consisting of R&D, capacity expansions and setting of new factory in Tirupati.

The company has not announced any dividends for FY19 as it is planning to embark on a greenfield capacity in Tirupati. The management anticipates that free cash flow should improve in FY20E, which should allow it to distribute dividends.

## Earnings Revision

### Earnings revised marginally in FY20E

(Rs mn)	Earlier	Revised
Revenue	29,632.0	34,194.9
EBITDA (%)	8.4	9.1
EPS	41.6	42.0
% change		1.0%

Source: Company and Kotak Securities – Private Client Research

## Stock Outlook

AEL is a contract manufacturer primarily for room ACs. During FY19, AEL underperformed the Sensex on account of 1) weak demand conditions and consequent excess inventory in room AC industry which curbed the procurement plans of ACs by OEM brands 2) higher working capital led to increase in interest costs and borrowings and 3) general derating in mid and small caps in the aftermath of integrity/auditor related concerns.

However, the Q4FY19 numbers have surprised us positively. The management was also able to meet its sales volume guidance. Going into FY20E, the outlook for room ACs is positive as except for East, all the other regions are witnessing good demand. AEL, itself has seen strong growth in April, which bodes well for the company's Q1FY20E numbers.

We are thus projecting strong earnings growth of 29% CAGR over FY19-21E. ROCE dropped to 13.5% in FY19 but we are projecting it to bounce back in FY20E and FY21E. We continue to be positive on the contract manufacturing business and reiterate BUY.

We may review our positive view if free cash flow reduces substantially and as a result of which the level of borrowings shoots up.

### Reiterate BUY

In terms of valuation, the stock is trading at 19.6x and 16.9x FY20E and FY21E earnings respectively. We see the company as a very good play on India's fast-growing room AC's (RAC) industry. AEL enjoys one of the highest two year earnings CAGR among peer group. With sustained demand trends and modest capex, we see asset turnover to rise in coming years leading to enhanced ROE/ROCE. We value the stock at 20x Consol EPS of FY20E (23x FY20E). Ascribe price target of Rs 976. (Rs 946 earlier).

### Peer Valuations

	FY20E PE (x)	ROCE (%)
AEL	19.6	16.1
Dixon	25.0	30.1
Blue Star	35.9	17.1
Voltas	34.2	15

Source: Consensus and Kotak Securities – Private Client Research

### Company background

Amber Enterprises Ltd was incorporated as Amber Enterprises India Private Limited and set up its first factory in Rajpura, Punjab, which commenced operations in 1994. Since then, the company has today grown to 10 manufacturing facilities across seven locations in India. The company's manufacturing facilities have a high degree of backward integration and are strategically located in proximity to our customers' requirements. The company's key customers include leading RAC brands such as Daikin, Hitachi, LG, Panasonic, Voltas and Whirlpool. Its customers commanded around 75% share in the Indian RAC market in Fiscal 2017.

## Financials: Consolidated

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>21,281</b>	<b>27,520</b>	<b>34,195</b>	<b>39,370</b>
% change yoy	29.4	29.3	24.3	15.1
<b>EBITDA</b>	<b>1,835</b>	<b>2,129</b>	<b>3,112</b>	<b>3,645</b>
% change yoy	42.7	16.0	46.2	17.1
Depreciation	490	623	731	828
<b>EBIT</b>	<b>1,345</b>	<b>1,506</b>	<b>2,381</b>	<b>2,817</b>
% change yoy	51.4	11.9	58.1	18.3
<b>Net Interest</b>	<b>538</b>	<b>246</b>	<b>476</b>	<b>625</b>
Other Income	87.2	99.5	43.9	69.8
Earnings Before Tax	894	1,359	1,949	2,262
% change yoy	132.8	52.0	43.3	16.1
Tax	271	412	585	678
as % of EBT	30.3	30.3	30.0	30.0
Net Income adj	623	948	1,364	1,583
% change yoy	123.3	52.1	43.9	16.1
Minority Interest	0.0	0.0	45.0	50.3
Reported Net Income	623	948	1,319	1,533
Shares outstanding (m)	31.4	31.4	31.4	31.4
<b>EPS (Rs)</b>	<b>19.8</b>	<b>30.2</b>	<b>42.0</b>	<b>48.8</b>
DPS (Rs)	0.0	0.0	0.0	0.0
CEPS	33.5	45.3	56.2	66.3

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
PBDIT	1,835	2,129	3,112	3,645
Tax and adjustments	(1,640)	(7)	(585)	(678)
Cash flow from operations	195	2,122	2,527	2,966
Net Change in Working Capital (104)	(2,713)	(947)	(697)	(697)
<b>Net Cash from Operations</b>	<b>92</b>	<b>(591)</b>	<b>1,580</b>	<b>2,269</b>
Capital Expenditure	(734)	(1,499)	(1,300)	(1,300)
Cash from investing	80	(49)	(1,976)	70
<b>Net Cash from Investing</b>	<b>(654)</b>	<b>(1,548)</b>	<b>(3,276)</b>	<b>(1,230)</b>
Interest paid	(538)	(246)	(476)	(625)
Issue of Shares	4,776	-	-	-
Dividends Paid	-	-	-	-
Debt Raised	(2,689)	1,493	2,450	-
<b>Net cash from financing</b>	<b>1,549</b>	<b>1,247</b>	<b>1,973</b>	<b>(625)</b>
Net change in cash	986	(892)	277	414
Free cash flow	(643)	(2,090)	280	969
<b>Cash at end</b>	<b>1,339</b>	<b>447</b>	<b>723</b>	<b>1,138</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	1,339	447	723	1,138
Accounts receivable	3,786	7,872	9,837	11,326
Stocks	3,956	5,606	7,026	8,090
Loans and Advances	283	131	131	131
Others	276	311	311	311
Current Assets	9,640	14,367	18,029	20,995
LT investments	144	137	137	137
Net fixed assets	5,629	6,511	7,080	7,552
Intangible assets	1,674	1,832	3,332	3,332
Deferred tax assets	-	31	31	31
CWIP	95	89	89	89
Other non current assets	104	324	324	324
<b>Total Assets</b>	<b>17,285</b>	<b>23,290</b>	<b>29,022</b>	<b>32,460</b>
Payables	6,874	9,932	12,370	14,225
Provisions	9	5	9	9
Current liabilities	6,884	9,936	12,379	14,234
LT debt	1,055	2,551	5,000	5,000
Other liabilities	419	942	418	418
Equity & reserves	8,928	9,861	11,225	12,808
<b>Total Liabilities</b>	<b>17,285</b>	<b>23,290</b>	<b>29,022</b>	<b>32,460</b>
BVPS (Rs)	284.3	314.1	357.5	407.9

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	8.6	7.7	9.1	9.3
EBIT margin (%)	6.3	5.5	7.0	7.2
Net profit margin (%)	2.9	3.4	4.0	4.0
Adjusted EPS growth (%)	123.3	52.1	43.9	16.1
Receivables (days)	65.0	104.0	105.0	105.0
Inventory (days)	68.0	74.0	75.0	75.0
Sales / Net Fixed Assets (x)	3.8	4.2	4.8	5.2
ROE (%)	9.9	10.1	12.5	13.2
ROCE (%)	16.0	13.5	16.2	16.6
EV/ Sales	1.3	1.1	1.0	0.8
EV/EBITDA	15.6	14.6	10.7	9.0
Price to earnings (P/E)	41.6	27.3	19.6	16.9
Price to book value (P/B)	2.9	2.6	2.3	2.0
Price to cash earnings	24.6	18.2	14.7	12.4

Source: Company, Kotak Securities – Private Client Research

## Result Update

## PNC INFRATECH LTD (PNC)

### Stock Details

Market cap (Rs mn)	:	47870
52-wk Hi/Lo (Rs)	:	196 / 122
Face Value (Rs)	:	2
3M Avg. daily vol (Nos)	:	230,129
Shares o/s (mn)	:	257

Source: Bloomberg

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	30,965	44,177	54,322
Growth (%)	66.8	42.7	23.0
EBITDA	4,569	6,459	7,673
EBITDA margin (%)	14.8	14.6	14.1
PAT	2,587	3,434	4,136
EPS	10.1	13.4	16.1
EPS Growth (%)	40.9	32.7	20.4
BV (Rs/share)	82	95	111
Dividend/share (Rs)	0.6	0.6	0.6
ROE (%)	13.2	15.1	15.7
ROCE (%)	16.5	19.7	20.6
P/E (x)	18.3	13.8	11.5
EV/EBITDA (x)	10.7	7.9	6.7
P/BV (x)	2.2	1.9	1.7

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	56.1	56.1	56.1
FII	6.3	6.3	6.1
DII	22.7	22.7	22.1
Others	15.0	15.0	15.8

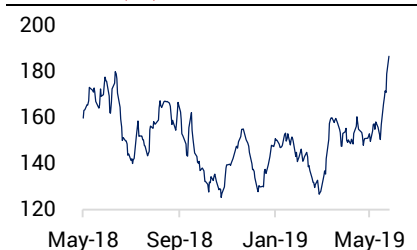
Source: Bloomberg

### Price Performance (%)

(%)	1M	3M	6M
PNC Infratech	23.6	47.3	24.8
Nifty	1.4	10.3	11.6

Source: Bloomberg

### Price chart (Rs)



Source: Bloomberg

### Pankaj Kumar

pankajr.kumar@kotak.com  
+91 22 6218 6434

PRICE RS.186

TARGET RS.226

BUY

PNC reported strong Q4FY19 result and was ahead of our estimates led by strong execution. The company has beaten its FY19 revenue growth guidance and has upgraded FY20E revenue growth guidance.

### Key Highlights

- PNC reported robust 54.9% yoy growth in standalone revenue driven by strong execution of its EPC and HAM projects. The company has received appointed date in six out of seven HAM projects and most of its EPC projects moved on expected lines. EBITDA margin at 14.1% was inline with our estimates.
- PNC has robust total order book of Rs 131 bn (including HAM projects where appointed date not yet received) which is ~4.2x its FY19 revenue, and gives strong revenue growth visibility for the next 3 years. Further, the company is targeting to add another Rs 70-80 bn of new orders from NHAI and state road projects in FY20E.
- Based on strong order book, pipeline of new orders and appointed date received in most of the HAM projects (except one), PNC has upgraded its FY20E revenue growth guidance from 35-40% earlier to 45-50% with EBITDA margin of 13.75-14%.

### Valuation & outlook

We have upgraded FY20E EPS estimates by 20% based on higher revenue growth estimates and introduced estimates for FY21E. The EPC business (adjusted for Rs 32 per share value of BOT/HAM) is available at a PE of 11.4x and 9.5x based on FY20E and FY21E EPS of Rs 13.4 (Vs Rs 10.8) and Rs 16.1, respectively. We maintain our Buy rating on the stock with revised SOTP based target price of Rs 226 (Vs Rs 192 earlier), as we roll forward our valuation to FY21E.

### Quarterly performance table (standalone)

Year to March (Rs mn)	Q4FY19	Q4FY18	% Chg	Q3FY19	% Chg
<b>Net Revenues</b>	<b>10,757</b>	<b>6,944</b>	<b>54.9</b>	<b>7,270</b>	<b>48.0</b>
Direct Expenses	7,342	4,895	50.0	4,983	47.3
Employee Expenses	544	376	44.7	552	(1.4)
Other Expenses	1,360	709	91.9	714	90.4
Operating Expenses	9,245	5,980	54.6	6,249	48.0
<b>EBITDA</b>	<b>1,512</b>	<b>964</b>	<b>56.8</b>	<b>1,021</b>	<b>48.0</b>
EBITDA margin	14.1%	13.9%		14.0%	
Depreciation	282	217	30.1	241	16.9
Other income	123	66	84.5	68	79.9
Net finance expense	194	85	127.2	187	3.6
<b>Profit before tax</b>	<b>1,158</b>	<b>728</b>	<b>59.0</b>	<b>661</b>	<b>75.3</b>
Provision for taxes Incl tax write back	(241)	258	(193.4)	187	(228.7)
Reported net profit	1,399	470	197.6	474	195.5
Prior Yr Tax write back/ MAT credit	658	-		-	
Adjusted PAT	741	470	58	351	111.2
Adj NPM%	6.9	6.8		4.8	

Source: Company

### **Excellent execution in Q4FY19, guided for 45-50% revenue growth in EPC business in FY20E**

The standalone net sales (EPC Business) for the quarter grew by 54.5% yoy to Rs 10.8 bn (Vs estimates of Rs 8 bn) driven by strong execution of its new as well as old projects. Most of the EPC projects moved on expected lines. Further, the company has received appointed date in six out of six total seven HAM projects. The company expects strong execution to continue in coming quarters as well. Earlier, the company had indicated to achieve over Rs 10 bn revenue per quarter in FY20E, which we believe is achievable. Based on robust order book and execution timeline, the company has guided for 45-50% growth in FY20E revenue.

### **EBITDA margins inline with our estimates**

Standalone EBITDA for the quarter was Rs 1.5 bn, and grew by 56.8% yoy with EBITDA margin at 14.1% which grew by 20 bps yoy and was inline with our estimates. The company has guided for 13.75-14% EBITDA margin in FY20E which excludes any early completion bonus/claim award. The debt in the books decreased on qoq to Rs 3.75 bn (Vs Rs 4.5 bn in Q3FY19) which includes only term loan related to equipment finance. Standalone PAT for the quarter adjusted for prior year tax write back grew at 57.7% yoy to Rs 741 mn (Vs our estimates of Rs 469 mn) on account of strong execution. The management has guided for full tax rate in FY20E.

### **Status of HAM projects**

PNC has total 7 HAM projects of costing Rs 88.97 bn out of which six are in construction phase while in balance one (Challakere- Hariyur in Karnataka), it has achieved financial closure and is awaiting appointed date (expected in September 2019). The company has received appointed date in Chakeri Allahabad and Aligarh Kanpur project in Q4FY19 and has already started execution. These projects are expected to contribute to company EPC revenue in FY20E.

### **Rs 6 bn of equity infusion in HAM through internal accruals**

PNC has infused Rs 2.8 bn equity in HAM projects and further requires Rs 6 bn of equity in 7 HAM projects in the next 2-3 years, with Rs 2.8 bn in FY20E. The company does not see any major problem in meeting equity commitment in these as it has strong cash generation and has low net debt. Besides this, the company is also looking to monetize its BOT and HAM projects. It is recently sign agreement with Cube Highways to monetize its BOT project (Ghaziabad Aligarh project). This deal will generate Rs 3 bn of cash inflows for the company and would reduce group's exposure towards debt related to the SPV. Further, the company has received total arbitration award in favour of its SPV, PNC Delhi Industrialinfra Private Limited.

### **Strong order book to support future growth**

The order book at the end of the quarter stood at ~Rs 131 bn which includes 1) Rs 12.2 bn of confirmed projects under execution, 2) one HAM projects of EPC cost of Rs 9.35 bn where appointed date is awaited. The current order book gives very strong revenue growth visibility for the next three years. Further, the company is targeting to add new projects worth Rs 70-80 bn (50% from HAM) in FY20E based on new bids expected from NHAI and state government related to expressways. The company is bidding in 38 out of 86 NHAI projects of value Rs 360 bn. It will also be bidding for Rs 120 bn of projects from UP government

related to Bundelkhand Expressway (~ Rs 90 bn) and Gorakhpur link road (~ Rs 30 bn).

#### Order Backlog details (as on 31 Mar 2019)

Projects	Value (Rs mn)
Jhansi-Khajuraho I (HAM)	8,250
Purvanchal Expressway Project P5 (Sansarpur Gobindpur)	14,670
Purvanchal Expressway Project P6 (Gobindpur Morjarpur)	9,300
Chakeri to Allahabad (HAM)	18,660
Aligarh-Kanpur (Package II from Bhadwas to Kalyanpur) (HAM)	10,330
Mumbai Nagpur Expressway	19995
Other projects	40,900
Order backlog	1,22,100
Challakere to Hariyur Karnataka (HAM) (Not included in OB)	9350
Consolidated OB	1,31,450

Source: Company

#### Other highlights

- The company reported Rs 5.9 mn per day toll revenue in Ghaziabad Aligarh BOT projects in Q4FY19. It has collected toll of Rs 2.7 mn per day in Kanpur Kabrai, Rs 1.6 mn per day in Gwalior Bhind and Rs 1.06 mn per day in Bareilly Almora BOT projects.
- PNC has received provisional completion certificate (PCC) in one of its EPC project Aligarh-Moradabad highway project on 13th May 2019 which was 73 days ahead of schedule. It is entitled to receive early completion bonus of ~ Rs 141 mn.
- The company has standalone debt of Rs 3.75 bn with low debt to net equity ratio of 0.06x. It has consolidated debt of Rs 27.7 bn with consolidated net debt to equity ratio of 1.09x.
- The company has zero working capital debt in the books. It has Rs 7.5 bn of fund based and Rs 33.5 bn of non-fund based limits. The company has reduced its working capital days in FY19 based on strong collection of receivables. The debtors' days in FY19 reduced by 63 days to 73 days.
- The company has incurred Rs 2.9 bn of capex in FY19. It targets to do capex of Rs 1-1.2 bn in FY20E in order to execute its orders. Based on current gross block of ~Rs 10 bn, it can execute over Rs 50 bn of work on its own in a year.

#### Outlook and valuation

We have upgraded FY20E EPS estimates by 20% based on higher revenue growth estimates and introduce estimates for FY21E. Based on current order book of ~Rs 131 bn (including HAM & EPC projects) and execution timeline, we expect PNC's revenue, EBITDA and PAT to grow at a CAGR of 32.5%, 29.6% and 26.4% respectively in FY19-21E. Further, PNC has strong pipeline of projects in road space which will support its future order book. The EPC business (adjusted for Rs 32 per share value of BOT/HAM) is available at a PE of 11.4x and 9.5x based on FY20E and FY21E EPS of Rs 13.4 (Vs Rs 10.8) and Rs 16.1, respectively. We maintain our Buy rating on the stock with revised SOTP based target price of Rs 226 (Vs Rs 192 earlier), as we roll forward our valuation to FY21E.

**Valuation Table (Rs mn)**

Segment	Parameter	Multiple P/E, P/BV	Rs Per Share
Construction Business	FY21E PE	12x	194
Road BOT/HAM	BV	1x	32
Consol PNC			226

Source: Kotak Securities - Private Client Research

**Revision in estimates**

Particulars (Rs Mn)	Previous		Actual FY19A	Revised FY20E	% Change		New FY21E
	FY19E	FY20E			FY19A	FY20E	
Revenue	28,171	39,224	30,965	44,177	9.9	12.6	54,322
EBITDA	4,174	5,488	4,569	6,459	9.5	17.7	7,673
EBITDA margin (%)	14.8	14	14.8	14.6	0 bps	60 bps	14.1
Adj PAT	2,355	2,854	2,587	3,434	9.9	20.3	4,136
EPS (Rs)	9.2	11.1	10.1	13.4	9.6	20.6	16.1

Source: Kotak Securities - Private Client Research

**Company Background**

PNC Infratech Ltd (PNC) is present in the business of construction and infrastructure development with expertise in highways, bridges, flyovers, airport runways, development of industrial areas, etc. The company is executing most of the projects in the states like Uttar Pradesh, Madhya Pradesh, Delhi, Rajasthan, Punjab, Haryana, Uttarakhand, Bihar, etc. PNC was incorporated as a sole proprietorship firm in 1989 and was promoted by Mr. Pradeep Kumar Jain. Over the years, it executed 44 major infrastructure contracts. The company has a long history in the Indian road sector and secured a contract from the first 10 tenders of NHDP in 1999. In FY07, it forayed in BOT business and further forayed into Hybrid Annuity Projects (HAM) in FY17. PNC has executed 38 road projects on EPC contract basis and is operating 6 BOT projects, 1 OMT project and developing 7 HAM road projects.

## Financials: Standalone

### Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>18566</b>	<b>30965</b>	<b>44177</b>	<b>54322</b>
% change yoy	9.9	66.8	42.7	23.0
<b>EBITDA</b>	<b>3188</b>	<b>4569</b>	<b>6459</b>	<b>7673</b>
% change yoy	44.3	43.3	41.3	18.8
Depreciation	772	922	1136	1247
<b>EBIT</b>	<b>2416</b>	<b>3647</b>	<b>5323</b>	<b>6426</b>
Other Income	230	430	430	430
Interest	307	641	847	947
Profit Before Tax	2339	3436	4906	5909
% change yoy	20.6	46.9	42.8	20.4
Tax	503	849	1472	1773
as % of EBT	21.5	24.7	30.0	30.0
<b>Adj PAT</b>	<b>1836</b>	<b>2587</b>	<b>3434</b>	<b>4136</b>
% change yoy	20.9	40.9	32.7	20.4
<b>PAT</b>	<b>2510</b>	<b>3245</b>	<b>3434</b>	<b>4136</b>
% change yoy	19.7	29.3	5.8	20.4
Shares outstanding (mn)	257	257	257	257
<b>Adj EPS (Rs)</b>	<b>7.2</b>	<b>10.1</b>	<b>13.4</b>	<b>16.1</b>
DPS (Rs)	0.6	0.6	0.6	0.6
CEPS (Rs)	10.2	13.7	17.8	21.0
BVPS (Rs)	70	82	95	111

Source: Company, Kotak Securities – Private Client Research

### Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Pre-Tax Profit	1,665	2,779	4,906	5,909
Depreciation	772	922	1,136	1,247
Change in WC	444	(1973)	(2898)	(1304)
Other operating activities	(1207)	200	(1472)	(1773)
<b>Operating Cash Flow</b>	<b>1674</b>	<b>1,928</b>	<b>1,672</b>	<b>4,080</b>
Capex	(1391)	(2963)	(1200)	(1000)
Free Cash Flow	283	(1036)	472	3,080
Change in Investments/others	(261)	(75)	(2800)	(3000)
<b>Investment cash flow</b>	<b>(1652)</b>	<b>(3039)</b>	<b>(4000)</b>	<b>(4000)</b>
Equity Raised	0	0	0	0
Debt Raised	(188)	2,451	1,000	0
Dividend & others	(150)	(150)	(150)	(150)
Other financing activity	1,334	267	0	0
<b>CF from Financing</b>	<b>996</b>	<b>2,569</b>	<b>850</b>	<b>(150)</b>
Change in Cash	1,017	1,458	(1478)	(70)
Opening Cash	44	1061	2519	1041
<b>Closing Cash</b>	<b>1,061</b>	<b>2,519</b>	<b>1,041</b>	<b>971</b>

Source: Company, Kotak Securities – Private Client Research

### Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Paid - Up Equity Capital	513	513	513	513
Reserves	17,553	20,639	23,923	27,909
Net worth	18,067	21,152	24,436	28,422
Borrowings	1,286	3,737	4,737	4,737
<b>Total Liabilities</b>	<b>19,352</b>	<b>24,889</b>	<b>29,173</b>	<b>33,159</b>
Net block	4,065	6,155	6,219	5,972
Capital work in progress	111	62	62	62
Total fixed assets	4,176	6,217	6,281	6,034
Investments	6,625	7,739	10,539	13,539
Inventories	1,758	4,036	5,757	7,080
Sundry debtors	6,900	6,154	11,498	14,139
Cash and equivalents	1,061	2,519	1,041	971
Loans and advances & Others	2,451	4,600	4,048	4,169
Total current assets	12,169	17,308	22,344	26,358
Sundry creditors and others	6,685	8,447	12,051	14,819
Provisions	172	117	129	141
Total CL & provisions	6,856	8,564	12,180	14,961
Net current assets	5,313	8,744	10,164	11,398
Other Assets (net)	3,223	2,184	2,184	2,184
Net Deferred tax	15	5	5	5
<b>Total Assets</b>	<b>19,352</b>	<b>24,889</b>	<b>29,173</b>	<b>33,159</b>

Source: Company, Kotak Securities – Private Client Research

### Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
<b>Profitability Ratios</b>				
EBITDA margin (%)	17.2	14.8	14.6	14.1
EBIT margin (%)	13.0	11.8	12.0	11.8
Net profit margin (%)	13.5	10.5	7.8	7.6
Adjusted EPS growth (%)	19.7	29.3	5.8	20.4
<b>Balance Sheet Ratios:</b>				
Receivables (days)	136	73	95	95
Inventory (days)	35	48	48	48
Loans & Advances (days)	48	54	33	28
Payable (days)	131	100	100	100
Cash Conversion Cycle (days)	87	75	76	71
Asset Turnover (x)	1.0	1.2	1.5	1.6
Net Debt/ Equity (x)	0.0	0.1	0.2	0.1
<b>Return Ratios:</b>				
RoCE (%)	13.2	16.5	19.7	20.6
RoE (%)	10.9	13.2	15.1	15.7
<b>Valuation Ratios:</b>				
P/E (x)	25.9	18.3	13.8	11.5
P/BV (x)	2.6	2.2	1.9	1.7
EV/EBITDA (x)	15.0	10.7	7.9	6.7
EV/Sales (x)	2.6	1.6	1.2	0.9

Source: Company, Kotak Securities – Private Client Research



## RATING SCALE

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
<b>RS</b>	–	<b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

### FUNDAMENTAL RESEARCH TEAM

<b>Rusmik Oza</b> Head of Research rusmik.oza@kotak.com +91 22 6218 6441	<b>Arun Agarwal</b> Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	<b>Amit Agarwal</b> Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	<b>Krishna Nain</b> M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907	<b>K. Kathirvelu</b> Support Executive k.kathirvelu@kotak.com +91 22 6218 6427
<b>Sanjeev Zarbade</b> Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	<b>Ruchir Khare</b> Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	<b>Jatin Damania</b> Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	<b>Deval Shah</b> Research Associate deval.shah@kotak.com +91 22 6218 6425	
<b>Teena Virmani</b> Construction, Cement, Buildg Mat teena.virmani@kotak.com +91 22 6218 6432	<b>Sumit Pokharna</b> Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	<b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434		

### TECHNICAL RESEARCH TEAM

<b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com +91 22 6218 5408	<b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350	<b>Faisal Shaikh, FRM, CFTe</b> Research Associate faisalf.shaikh@kotak.com +91 22 62185499	<b>Siddhesh Jain</b> Research Associate siddhesh.jain@kotak.com +91 22 62185498
---	---	--	--

### DERIVATIVES RESEARCH TEAM

<b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231	<b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420	<b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497	<b>Prasenjit Biswas, CMT, CFTe</b> prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	--

## Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE), National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on [www.kotak.com](http://www.kotak.com)

1. "Note that the research analysts contributing to the research report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account

Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc. (Member FINRA/SIPC) and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc. (Member FINRA/SIPC) at 369 Lexington Avenue 28th Floor NY NY 10017 USA (Tel:+1 212-600-8850).

Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services. Accordingly, any brokerage and investment services including the products and services described are not available to or intended for Canadian persons or US persons."

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Nature of financial interest is holding of equity shares or derivatives of the subject company.

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

By referring to any particular sector, Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing. Such representations are not indicative of future results.

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at <https://www.nseindia.com/ChartApp/install/charts/mainpage.jsp> and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com)/[www.kotaksecurities.com](http://www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137 (Member ID: NSE-08081; BSE-673; MSE-1024; MCX-56285; NCDEX-1262), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com).

In case you require any clarification or have any concern, kindly write to us at below email ids:

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at [ks.demat@kotak.com](mailto:ks.demat@kotak.com) or call us on: Toll free numbers 18002099191 / 1860 266 9191
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at [ks.escalation@kotak.com](mailto:ks.escalation@kotak.com) or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at [ks.servicehead@kotak.com](mailto:ks.servicehead@kotak.com) or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com) or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at [ceo.ks@kotak.com](mailto:ceo.ks@kotak.com) or call on 91- (022) 4285 8301.